

Water and Light Advisory Board
May 4, 2010

A meeting of the Water and Light Advisory Board was held Tuesday, May 4, 2010 at 8:00 a.m. at the Utility Services Conference Room, 105 E. Ash St. The meeting was attended by:

John Conway, Chair
Tom Baumgardner, Member
Tom O'Connor, Member
Bob Roper, Member
Dick Parker, Member
Mike Schmitz, Interim Water and Light Director
Jim Windsor, Manager of Rates and Fiscal Planning
Dave Storvick, Acting Engineering Manager - Water
Ryan Williams, Acting Engineering Manager - Electric
Floyd Turner, Water Operations Manager
Tina Worley, Utility Services Manager
Tad Johnsen, Power Production Superintendent
Dan Stokes, Electric Distribution Manager
Marilyn Thorpe, Administrative Support Supervisor
Stephanie Brown, Administrative Support Assistant

APPROVAL FOR THE MARCH 2, 2010 MEETING MINUTES

The April 6, 2010 meeting minutes were approved by voice vote on a motion by Bob Roper and a second by Tom O'Connor.

DIRECTOR'S REPORT

a) Draft Budget Discussion – Mike Schmitz said the budget consists of three components: Capital Additions Budget, Supplemental Budget and Operations and Maintenance (O&M) Budget. The numbers from the proposed budget will carry forward until Finance processes it and it is then reviewed by the City manager prior to it being discussed along with the whole City budget at the Council Retreat June 3-5. Final discussion will be in August or September during the Public Hearing process when Council will approve the budget. Mr. Schmitz referred to the usage projection charts for water and electric and pointed out that water and electric have followed the same trends throughout the last few years.

Jim Windsor referred to the Capital Improvements Projects (CIP) programs for water and electric. He explained that the unfunded amount on the electric CIP refers to an upcoming bond issue included in the budget proposal. Mr. Windsor added that water projects have been funded by a 2008 bond issue. New and replacement equipment are funded out of the enterprise budget. Mr. Schmitz explained that the CIP budget is a rolling five year plan that shows projections for the following four years. The timing may vary. The CIP budget may go beyond five years depending upon the projects. During a bond issue five years will be outlined. He said the City Manager tries to balance the bond issues with other City bond issues. Mr. Schmitz added that customers would not be able to afford the rate increases that would be necessary without the bond issues. Mr. Schmitz said there are several projects included in the unfunded budget. Mr. Windsor said no funds from the O&M budget can be used for CIP without being transferred through an appropriation process approved by Council. Mr. Windsor said Enterprise Revenue consists of cash and marketable securities and are specifically tied to rates. For CIP projects, he said the utility uses the 80/20 method, which was established by the Board several years ago. With this method 80% of projects are funded from bonds and 20% funded from enterprise. This method is not City chartered, just policy. Mr. Schmitz added that the Planning and Zoning Comprehensive Plan Task Force has questioned the logic of

the method. As Mr Schmitz understands it, the purpose of the task force is to determine how the infrastructure of the City is designed and paid for as a whole. He asked the Board if they are in agreement with the utility's use of this method. Mr. Roper felt that it would not hurt to review other alternatives besides the 80/20 method.

Mr. Windsor went over the supplemental requests. He said the turnaround time for vehicles is 10 years, 100,000 miles, or significant maintenance issues. Supplemental items include vehicles, equipment, Demand Side Management (DSM) programs, and new personnel. Mr. Windsor said the items are prioritized. He said the water amount is lower because of revenue issues. Mr. Roper asked if the drop in water consumption was also due to conservation instead of climate and the economy alone. Mr. Schmitz said Water District No. 9's revenue is parallel with the City so it appears that it is mainly weather and economy related.

O&M Budget – Mr. Windsor made reference to the Purchased Power chart and noted that capacity charges must be paid regardless of usage. Transmission charges are estimated for market and other purchases. Sikeston connects directly to Midwest Independent Systems Operator (MISO), so we pay no transmission charge. Before MISO, we paid \$70,000 a month to Sikeston. Mr. Schmitz pointed out that the Ameren PPA expires May 31, 2011 so we have purchased 25 MW to help replace that capacity. IATAN II will be operating by then as well. For some, the difference in the price and the all-in price per megawatt/hour includes other charges associated with that power source. He said we prefer to deal with the all-in price. Mr. Schmitz mentioned that he would like the Board to think about the methodology of calculating the renewable energy rates in regards to the ordinance initiative to not raise rates more than 3%. He will include the ordinance and several calculation options in the report to the Board next month. Mr. Windsor said there is a six month trend on usage as he referred to the Usage Trends by Major Customer Class chart. He felt that charting on an annual basis is misleading because of the changes in the seasons. Industrial and commercial cutbacks have dramatically affected both electric and water.

Another key change in the O&M budget is the extension of the current Water and Light Administration and Engineering building for one more year until the City Hall renovations are complete. Mr. Schmitz said the new lease will be directly with the building owner. He is also currently negotiating occupancy rent for the space in the new City Hall. Mr. Windsor said there is an increase in Services & Other Miscellaneous because of the amount held over from FY09 and made part of FY10 revised budget. It will be matched in the FY11 proposal. The current temporary employees at the Transload facility are proposed to be made permanent. He mentioned that electric charges for water production will increase because of replacement of defective metering equipment. According to Mr. Schmitz the City Manager has indicated that the goal is to set a hold on electric rates and increase water rates.

b) Electric Business Plan – Mr. Schmitz said the Transload and COLT Railroad business plan and Electric business plan will be parallel to the Water business plan. The Electric plan will include issues such as streetlights, power production and electric services. He requested that a Board member be present during this process. Dick Parker and Bob Roper volunteered to join the meeting and will be notified of the next business plan meeting.

c) Renewables Request for Proposals (RFP) – Tad Johnsen said by the end of the year, he expects to reach the requirement of 5% of all power produced to be from renewable resources. This meets the end of the year 2012 requirement as outlined in the ordinance. A Request for Proposal (RFP) was issued to help meet the 2017 requirement of 10%. An evaluation committee consisting of Ryan Williams, Jay Hasheider, Mr. Johnsen, and Mr. Windsor reviewed three responses. The Atlantic Energy proposal was ruled out because of the unprecedented method proposed. Iberdrola Renewables and Outland Renewable Energy were the other two proposals considered. Outland proposed a cost that was \$10 MW less than Iberdrola. The

committee recommended accepting Outland's proposal and proceeding with negotiations for a contract. He anticipates the cost to be \$60-64 MW. With this company, once a certain capacity is met, the cost will decline. Outland proposed a 20 year-term with the possibility of a debt reduction plateau in which the price would decline the last remaining years of the contract. Mr. Schmitz would like to pursue this option and return with a contract for the Board to review and lock in a price for the 20 year term. He may have other options to compare it to for the next month. A draft contract will be presented at a future Board meeting.

FINANCIAL REPORT

a) Financial Update –Mr. Windsor said the Water Utility revenue is still down, but is doing okay. Mr. Windsor explained that Retained Earnings consist of assets, depreciation values, restricted assets, and funds set aside during bond issues. Unrestricted Retained Earnings are cash and investments that are part of that. In response to Mr. Parker's suggestion to build a budget for unexpected costs and take it from the CIP budget, Mr. Windsor said that's possible, but it would significantly reduce cash and marketable securities. Mr. Schmitz said Retained Earnings are needed because with electric the extra capacity can be sold to MISO, but that is not the case with water which can only be sold to surrounding areas. Mr. Schmitz suggested waiting a year before making any changes in procedures since there will be no electric rate increase this year. Mr. Parker also brought up increases on DSM program incentives to encourage participation. Mr. Schmitz said staff will compile a Cost of Services packet and present it at the next meeting and asked Mr. Parker to send his information on customer electric usage to staff.

b) The Board received the monthly financial statements ending March 31, 2010.

Water and Electric Utility combined operations reflect an operating income of \$635,947 for the six months ended March 31, 2010; compared to an operating income of \$2,124,684 for the same period last year. This is a decrease of \$1,488,737.

The Water Utility has an operating income of \$595,090 for the six months ended March 31, 2010; compared to an operating loss of \$986,244 for the same period last year. This is an increase of \$1,581,334 in operating income.

The Electric Utility has an operating income of \$40,857 for the six months ended March 31, 2010; compared to an operating income of \$3,110,928 for the same period last year. This is a decrease in operating income of \$3,070,071.

Operating revenues of the Electric Utility are up \$2,345,919 compared to the same period last year.

Operating expenses before Payment-In-Lieu-Of-Tax and Depreciation are up \$5,013,139. Fuel and Purchased power costs have increased \$3,755,088.

CHAIRMAN'S REPORT

No report.

NEW BUSINESS

Mr. Schmitz said the American Public Power Association (APPA) Conference for Managers will be June 19-23 in Orlando, Florida. Anyone interested in attending should contact Marilyn Thorpe.

Mr. Schmitz announced that Ryan Williams has accepted the position as Assistant Director of Water and Light as of May 16.

OLD BUSINESS

Mr. Schmitz said the Water Source Protection Task Force resolution passed and will move forward. Dave Storvick said the task force will include four outside entities, four City staff, and four Council appointed positions. Mr. O'Connor requested to be a representative from the Water and Light Advisory Board. Mr. Roper made a motion to nominate Mr. O'Connor as the representative and Mr. Parker made a second motion. The motion unanimously passed.

Next meeting date: Tuesday, June 1, 2010 at 8 a.m. in the Utility Services Conference Room, 105 E. Ash St., Columbia, MO.

The meeting adjourned at 9:45 a.m.

Respectfully submitted,

A handwritten signature in cursive script, reading "Stephanie Brown".